

2000 ANNUAL REPORT



**The
Power
of
Image**

Financial Highlights

	2000	1999	1998
Income Statement Data			
<i>(In thousands, except per share)</i>			
Net sales	<u>\$235,601</u>	<u>\$227,789</u>	<u>\$189,139</u>
Operating income	<u>\$ 28,556</u>	<u>\$ 27,228</u>	<u>\$ 20,194</u>
Income from continuing operations	<u>\$ 18,279</u>	<u>\$ 17,101</u>	<u>\$ 12,587</u>
Earnings per common share from continuing operations			
Basic	<u>\$ 1.79</u>	<u>\$ 1.73</u>	<u>\$ 1.32</u>
Diluted	<u>\$ 1.77</u>	<u>\$ 1.70</u>	<u>\$ 1.29</u>

Balance Sheet Data

(In thousands)

Working capital	<u>\$ 61,139</u>	<u>\$ 49,615</u>	<u>\$ 40,237</u>
Total assets	<u>\$146,783</u>	<u>\$137,714</u>	<u>\$110,316</u>
Shareholders' equity	<u>\$118,212</u>	<u>\$102,752</u>	<u>\$ 78,657</u>

Corporate Profile

LSI Industries is an integrated design, manufacturing, and imaging company supplying its own high-quality lighting fixtures and graphics elements for both exterior and interior applications primarily in North America. The Company's major markets are the petroleum / convenience store market, the multi-site retail market (including restaurants, automobile dealerships, and national retail accounts), and the commercial / industrial lighting market. Additionally, LSI Industries produces and markets menu board systems and is a major supplier of outdoor, indoor and landscape lighting for the commercial / industrial market.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995

This Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that involve substantial risks and uncertainties that could cause actual results to differ materially from those expected. These include, but are not limited to, the impact of competitive products, product demand and market acceptance risks, reliance on key customers, unexpected difficulties in integrating acquired businesses, unfavorable outcome in resolution of loss contingencies, and fluctuations in operating results or costs.

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Exterior Lighting



THE POWER OF CHANGE

You may have noticed a slight change in the look of our logo on the front cover. We have streamlined and updated it to reflect the changes we're experiencing as a company. For almost 25 years now, we have entered new markets and acquired new companies to promote growth. Each of our seven companies operated under the LSI umbrella, but kept its own name and culture. We finally had to admit this was causing confusion in the marketplace. So, beginning this year, every subsidiary will operate under the LSI banner - a name that proudly spells out the "Leadership, Strength and Innovation" vision we all support. We want our employees, customers and shareholders to benefit from unified branding and identification with LSI. We do not intend to lose the entrepreneurial spirit that has shaped this Company from the beginning. We do intend to channel that spirit into one unified powerhouse that uses its unique blend of full-service lighting and graphics capabilities to shape a distinctive image for its customers.

Interior Graphics



Interior Lighting



GOODYEAR



Exterior Graphics

Dear Shareholders

This letter and Annual Report come to you at a very interesting time in LSI's history. We accomplished a great deal in fiscal 2000 — a year that established new records for both net sales and net income. Net sales of \$235.6 million increased 3%, Income from Continuing Operations of \$18.3 million increased 7%, Earnings per Share from Continuing Operations of \$1.77 increased 4%, and Shareholders' Equity increased 15% to more than \$118 million. However, accomplishments in the areas of new product development, sales channel improvements, 10% increase in square foot capacity (with another 5% to come in fiscal 2001), cost improvements, and stock price performance were overshadowed by changes in our largest market — the petroleum / convenience store market.

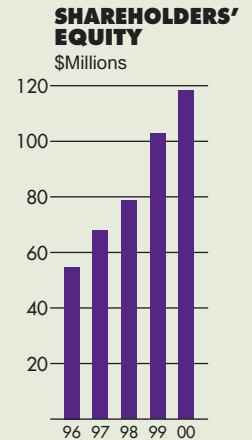
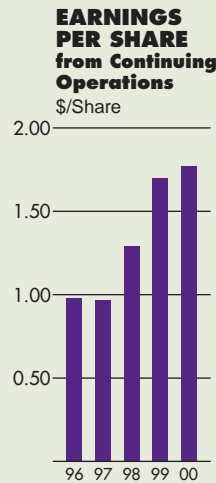
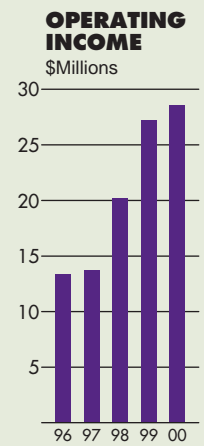
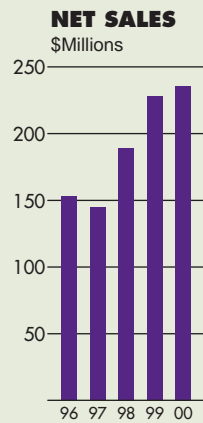
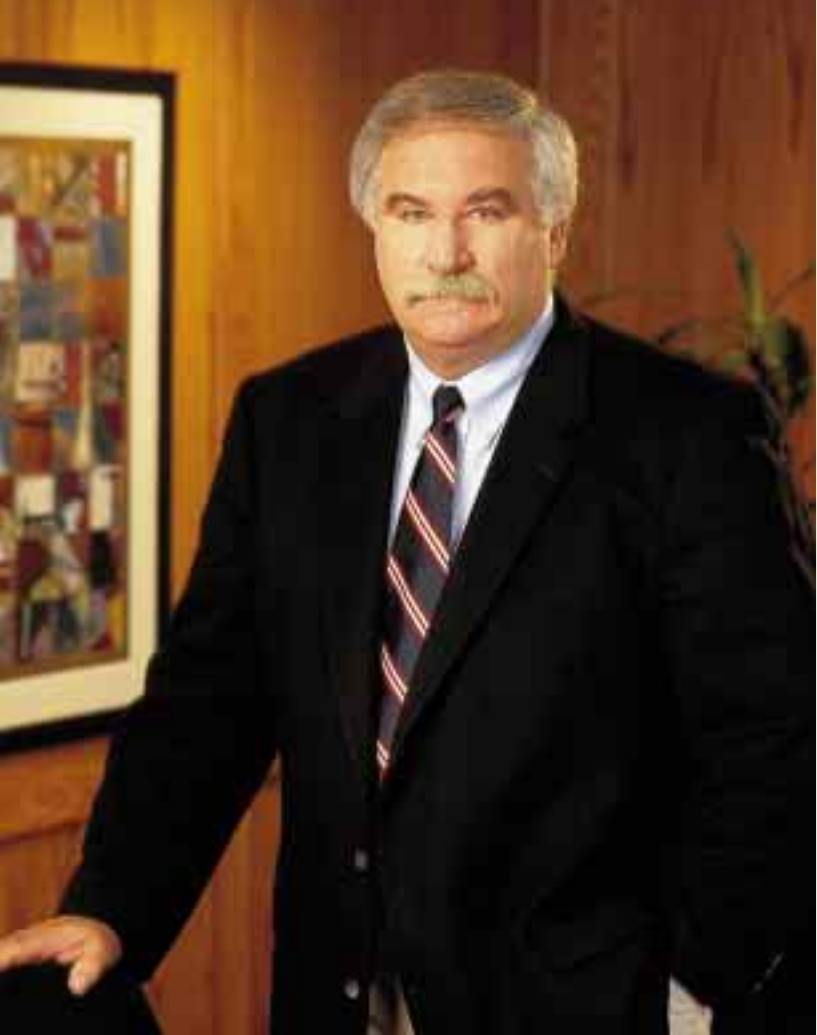
The three large mergers in the oil industry now have joined BP, Amoco and Arco as one company, Exxon and Mobil as a second entity, and Shell and Texaco have formed a third large marketing enterprise. Effects of these mergers have been felt throughout the industry as these combined companies consolidate management responsibilities, formulate new operating strategies, sell off or purchase retail stations, and work through an important process of designing their new marketing images. LSI has certainly been impacted in this market that represents 38% of our total net sales. We experienced a slowdown in both lighting and graphics sales in the second half of fiscal 2000 as the oil companies focused on establishing their future retail site images for both new and retrofit sites.

The silver lining in this slowdown is that never before in LSI history have we had more potential opportunity to participate in re-image programs in our major market. We have worked diligently over the past 18 months with oil company executives as

they progress from the concept and design stage to the prototyping of new images for their stations and convenience stores. While the BP new image program may be the first to roll out in the second half of fiscal 2001, we think that other oil companies could soon follow with updated and revised images so that they can preserve their market share. LSI will not likely be awarded all lighting and graphics elements of these massive re-image programs. However, I believe that our participation in current development and prototype work, as well as our proven capabilities and history of significant participation in roll-out programs in this industry in the past, has positioned us solidly for a major share of these programs. All of our operations are definitely capable of meeting these multi-year challenges that could impact about 50,000 or more sites in North America.

During fiscal year 2000 we began the task of converting our business operating software and systems company-wide. In addition, we are working on an e-business strategy that will strengthen LSI's opportunities with the large national retail customers. The bottom line for the implementation period of fiscal 2000 through fiscal 2002 will certainly be affected by the expense associated with this technology upgrade. However, benefits of both of these technology initiatives will increase our operating capabilities and should lead to increased efficiencies as the Company grows in the future.

You may have noticed the slight modification of the LSI logo on the front cover and elsewhere in this Annual Report. We are developing a new identity by consolidating all of our different companies into one unified corporate-branded identity to gain the marketplace recognition and acceptance for all operations that the "LSI" brand now enjoys. When this is implemented in fiscal 2001, I expect a more unified marketing approach, additional opportunities for cross selling both lighting and graphics products, and the beginning of development of strong brand



recognition throughout our markets.

A strong balance sheet and financial condition is a core operating philosophy and trademark of LSI. Fiscal 2000 concluded with the balance sheet stronger than ever and with nearly \$22 million of cash and short-term investments. We actively evaluated several acquisition candidates during the year, and have ongoing interest in some of them. We continue to look for the right acquisitions that will help increase our revenue growth and profitability in both the Image Group and the Commercial / Industrial Lighting Group.

As fiscal 2001 begins, it appears that we will be involved with a major roll-out of both interior and exterior menu board systems for one of the large, national quick service restaurant marketers. This customer began its design/concept stage with LSI in fiscal 1999, and its prototype stage in fiscal 2000. We are very excited about this opportunity that could

impact the second half of fiscal 2001, and believe that our participation in the roll-out implementation will open other opportunities with other quick service restaurant customers.

Your Company's future looks stronger than ever. We are ready for the challenges that will come. We have the people, we have the customers, we have the capacity, we have the financial strength, and most of all, we have the continued support of our shareholders who will support continued growth of LSI in the future.

Sincerely,

Robert J. Ready

Chairman, President and CEO

Our Strength comes from a solid Foundation

LSI has held fast to several philosophies from its beginnings in 1976 that have become the building blocks of its solid foundation. Interwoven and interdependent, these philosophies have allowed the Company to establish Leadership in the markets it serves, to gather Strength from its people, and to secure future growth through Innovation. We explore the philosophies that have made LSI a success on this and the following pages.

Growing from Niche to Niche

LSI was founded in 1976 and provided lighting for gas stations. Success in this market niche led to lighting for fast food restaurants and auto dealerships. Eventually graphics were added as we recognized that combining lighting and graphics was the key to our customers' visual images. Niche by niche, sales volume grew as the Company developed a deeper knowledge of the products, people and distribution channels involved in these specialized markets. Today, we still follow the niche philosophy, expanding it to an ever-broader base. LSI now provides a distinctive image not only for petroleum / convenience stores and automotive and fast food stores, but also for sports, retail, commercial and industrial customers.

The Power of People

LSI's people philosophy is fundamental. Simply put, it takes good people to make a good company. From suppliers to employees to customers, all must be treated fairly and with respect in order to create a successful "three-legged stool" that is properly



balanced. Suppliers know that their products, components, and services are highly valued.

Employees look on their work as an exciting career, not just as a job. And customers know they can always count on receiving the best products and services from LSI.

Focused on New Products

LSI has invested in the research and development of new products since its beginning so that customers may benefit from the latest designs and materials. The revolutionary design of the Scottsdale canopy lighting fixture reduced maintenance and cost of ownership by allowing lamp changes to be made from the ground, and by reducing electrical costs by at least 20%. The introduction of the Challenger fixture allowed light to be either widely dispersed or focused, offered a compact housing aerodynamically designed for less wind resistance, and made lighter poles feasible. These introductions, and so many more like them, have enabled LSI to meet the marketplace's growing demand for new capabilities, materials and technology.



New Scottsdale Flat Glass Option



The effective combination of lighting and graphics in both exterior and interior applications can create a powerful image that draws customers, increases revenues and improves security.



Growth through Acquisitions

Acquisitions have been, and will continue to be, part of the Company's growth philosophy when such acquisitions add new products, new markets or new knowledge to existing capabilities. Both the lighting and graphics industries, as with so many other industries, are in the midst of consolidation. LSI will participate by seeking to identify other lighting or graphics companies than can enhance its product line or carry it seamlessly into new niche markets.

Prepare to Change



Technology will raise the standard of how business is done in the future. LSI has always been willing to adapt as the needs of the marketplace changed, but modern technology will increase the rate of change. Blending the technological savvy of its employees with the wisdom and experience of others will allow the Company to transform itself from a manufacturing company into a technological service company with manufacturing capabilities. LSI anticipates the challenges of the new technological era with enthusiasm.

1+1=3 or more

The Company's strategy for growth is based on a very simple formula: $1+1=3$. This formula applies to so many aspects of the business. When hiring employees, LSI looks for people whose skills and attitude will combine with existing staff to produce more than either could alone. When making an acquisition, two good companies combine to create more than just a larger company. The combined companies can become great if the fit is right. The potential for growth explodes when the right components are plugged into this powerful formula.

Follow the 80/20 Rule

It's a fact of doing business. Twenty percent of the products do 80 percent of the volume. So LSI focuses on the 20 percent that mean greater market penetration and greater growth. By applying more resources to these high-volume products, the Company can keep costs down and profits up.

Success in the long run

LSI does not look for high-risk ventures or acquisitions to make a name for itself. Instead, it relies on all of the philosophies previously described to culminate in long-term growth and strength. Bringing the best products to the right market, offering the best service, establishing the best relationships and making the best acquisitions will produce growth that benefits every supplier, employee, customer and shareholder. Sticking to fundamentals has produced a successful rate of growth for the past 25 years. The foundation is solid, and the road ahead is clear.



From office buildings to restaurants, gas stations to tennis courts, LSI uses innovative and dynamic lighting and graphics to help its customers present their desired daytime and nighttime marketing image.



Using Our Resources to create an **IMAGE** from start to finish

LSI's unique blend of full-service lighting and graphics capabilities provide a single-source partner to our customers to create an effective, 24-hour-per-day visual image. LSI's attractive, efficient lighting, when combined with graphics, provides a powerful marketing synergy: **LIGHTING + GRAPHICS = IMAGE.**

THE POWER
OF
LIGHTING



THE POWER
OF
GRAPHICS



THE POWER
OF
RESEARCH AND
DEVELOPMENT

THE POWER
OF
INTEGRATED
MANUFACTURING

Financial Results

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Management's Discussion and Analysis of Financial Condition and Results of Operations

Sales by Business Segment

(In thousands)

	2000	1999	1998
Image Group	\$155,896	\$159,277	\$138,886
Commercial / Industrial Lighting Group	79,705	68,512	50,253
	\$235,601	\$227,789	\$189,139

Results of Operations

2000 Compared to 1999

Net sales of \$235,601,000 in fiscal 2000 increased 3% over fiscal 1999 net sales of \$227,789,000. Results of the Image Group in fiscal 2000 include the operations of LSI Retail Graphics (acquired April 1999; approximately 2% of net sales in fiscal 2000). Results of the Commercial / Industrial Lighting Group in fiscal 2000 include the operations of LSI MidWest Lighting (acquired January 1999; approximately 8% of net sales in fiscal 2000). Commercial / Industrial Lighting Group net sales increased 16% and Image Group net sales decreased 2% in fiscal 2000 as compared to the prior year. The increase in the Commercial / Industrial Lighting Group is attributed primarily to the full year effect of the acquisition of LSI MidWest Lighting, in addition to an approximate 2% sales increase in this segment. The decrease in Image Group net sales is attributed primarily to softness in the petroleum / convenience store market. Net sales to this significant market were adversely impacted by the temporary affects of mergers of major petroleum companies. The Company believes it is likely that net sales in the first two quarters of fiscal year 2001 could remain near the level of the fourth quarter of fiscal 2000 until various customers begin to implement and roll out their re-image programs. The Company's graphics and petroleum lighting sales volume, both components of the Image Group, were down approximately 2% and 11%, respectively, as compared to the prior year. Net sales of the Image Group to the petroleum / convenience store market represented 38% and 43% of net sales in fiscal 2000 and fiscal 1999, respectively. While sales prices

were increased, inflation did not have a significant impact on sales in 2000 as competitive pricing pressures held price increases to a minimum.

Gross profit of \$78,995,000 increased 2% over last year's gross profit of \$77,108,000, and decreased as a percentage of net sales to 33.5% in fiscal year 2000 as compared to 33.9% in the prior year. The decrease in amount of gross profit is due primarily to product mix changes between years and competitive pricing in several markets, partially offset by the 3% increase in net sales and improved efficiencies. Selling and administrative expenses increased to \$50,439,000 from \$49,880,000 for a 1% increase, caused primarily by increased net sales. As a percentage of net sales, selling and administrative expenses were at 21.4% in fiscal 2000 as compared to 21.9% in the prior year.

During fiscal year 1999 the Company began the task of converting its business operating software and systems company-wide. In addition work was started on an e-business strategy in fiscal year 2000. Total implementation costs expensed were \$1,266,000 (\$0.08 per share, diluted) in fiscal 2000 and \$245,000 (\$0.02 per share, diluted) in fiscal 1999. Net income during the estimated remaining implementation period extending into fiscal 2003 is likely to be affected by the implementation expense associated with this technology upgrade in amounts of \$0.01 to \$0.02 per share, diluted, each quarter.

The Company reported net interest income of \$868,000 in fiscal 2000 as compared to net interest income of \$253,000 in fiscal 1999 primarily reflective of an increased amount of short-term cash investments at slightly increased rates of return. The Company's effective tax rate increased to 37.8% in fiscal 2000 as compared to 37.6% in fiscal 1999 primarily due to increased amortization of goodwill which is not deductible for tax purposes.

Income from continuing operations of \$18,279,000 increased 7% over \$17,101,000 in fiscal 1999. The increased income from continuing operations resulted from increased gross profit on increased net sales, and from the reporting of a larger amount of net interest income in fiscal 2000 as compared to 1999, partially offset by increased operating expenses and income taxes. Diluted earnings per share from continuing operations of

\$1.77 increased 4% in fiscal 2000 from \$1.70 per share in fiscal 1999. The weighted average common shares outstanding for purposes of computing diluted earnings per share increased 3% in fiscal 2000 to 10,354,000 shares from 10,088,000 shares in 1999 primarily as a result of common shares issued for the exercise of stock options during the year.

The Company recorded a \$1.0 million (\$0.10 per share) discontinued operations charge, net of taxes, in the fourth quarter of fiscal 2000 for an increase in the loss contingency related to a lease guaranty in connection with its European operations which were discontinued in 1992. No charge to discontinued operations was recorded in fiscal 1999. Attempts to date to resolve this contingent liability have not been successful. The estimated amount that the Company would expect to spend to settle these lease obligations is the \$2.7 million now in its reserve. The Company will vigorously contest any litigation or other action that could increase this liability. The maximum liability through the expiration of the lease, including obligations with respect to maintenance of the facility, could be approximately \$4.5 million.

Net income of \$17,279,000 increased 1% over \$17,101,000 in fiscal 1999 primarily as a result of increased income from continuing operations, partially offset by the charge to discontinued operations in fiscal 2000.

1999 Compared to 1998

Net sales of \$227,789,000 in fiscal 1999 increased 20% over fiscal 1998 net sales of \$189,139,000. Results of the Image Group in fiscal 1999 include the operations of LSI Retail Graphics (acquired April 1999; less than 1% of net sales in fiscal 1999). Results of the Commercial / Industrial Lighting Group include the operations of LSI MidWest Lighting (acquired January 1999; approximately 4% of net sales in fiscal 1999). Commercial / Industrial Lighting Group net sales increased 36% and Image Group net sales increased 15% in fiscal 1999 as compared to the prior year. The increase in the Commercial / Industrial Lighting Group net sales resulted from growth in substantially all markets and from inclusion of the results of LSI MidWest

Lighting. The increase in Image Group net sales is attributed to growth in substantially all markets and products, particularly petroleum lighting, quick service restaurant, and interior graphics, as well as to the inclusion of the results of LSI Retail Graphics. Net sales of the Image Group to the petroleum / convenience store market represented 43% and 49% of net sales in fiscal 1999 and fiscal 1998, respectively. While sales prices were increased, inflation did not have a significant impact on sales in 1999 as competitive pricing pressures held price increases to a minimum.

Gross profit of \$77,108,000 increased 20% over last year's gross profit of \$64,480,000, and decreased as a percentage of net sales to 33.9% in fiscal year 1999 as compared to 34.1% in the prior year. The increase in amount of gross profit is due primarily to the 20% increase in net sales. The decrease in gross profit percentage is primarily related to slightly lower margins from businesses acquired in fiscal 1999. Selling and administrative expenses increased to \$49,880,000 from \$44,286,000 primarily as a result of increased sales volume and the addition of the acquired businesses. As a percentage of net sales, selling and administrative expenses were at 21.9% in fiscal 1999 as compared to 23.4% in the prior year.

The Company reported net interest income of \$253,000 in fiscal 1999 as compared to net interest income of \$37,000 in fiscal 1998 primarily reflective of an increased amount of short-term cash investments. The Company's effective tax rate increased to 37.6% in fiscal 1999 as compared to 37.5% in fiscal 1998 primarily due to increased amortization of goodwill which is not deductible for tax purposes.

Net income of \$17,101,000 increased 36% over \$12,587,000 in fiscal 1998. The increased net income resulted from increased gross profit on higher net sales, and from the reporting of a larger amount of net interest income in fiscal 1999 as compared to 1998, partially offset by increased operating expenses and income taxes. Diluted earnings per share of \$1.70 increased 32% in fiscal 1999 from \$1.29 per share in fiscal 1998. The weighted average common shares outstanding for purposes of computing diluted earnings per share

increased 3% in fiscal 1999 to 10,088,000 shares from 9,790,000 shares in 1998 primarily as a result of common shares issued to acquire businesses and the exercise of stock options during the year.

Liquidity and Capital Resources

The Company considers its level of cash on hand, its current ratio and working capital levels to be its most important measures of short-term liquidity. For long-term liquidity indicators, the Company believes its ratio of long-term debt to equity and its historical levels of net cash flows from operating activities to be the most important measures.

At June 30, 2000 the Company had working capital of \$61.1 million, compared to \$49.6 million at June 30, 1999. The ratio of current assets to current liabilities increased to 3.36 to 1 from 2.56 to 1. The increased working capital is primarily attributed to increased cash and other current assets, and decreased accounts payable and accrued expenses, partially offset by a reduction in accounts receivable and an increase in net liabilities from discontinued operations.

The Company generated \$19.8 million of cash from operating activities in fiscal 2000 as compared to \$20.6 million in fiscal 1999. The decrease in net cash flows from operating activities in fiscal 2000 is primarily the net result of a decrease in accounts payable and accrued expenses, and increases in inventories and refundable income taxes, partially offset by increased net income, a decrease in accounts receivable, an increase in net liabilities from discontinued operations, and increased depreciation and amortization. The decrease in accounts receivable and accrued expenses is primarily the result of lower sales volume and profitability in the fourth quarter of fiscal 2000 as compared to fiscal 1999. As of June 30, 2000, the Company's days sales outstanding were at approximately 55 days, increased from 54 days at June 30, 1999.

In addition to cash generated from operations, the Company's primary source of liquidity

continues to be its lines of credit. The Company has two unsecured revolving lines of credit totaling \$32 million, all of which was available as of August 21, 2000. A \$12 million line of credit expires in the third quarter of fiscal 2001. The primary line of credit in the amount of \$20 million is a three year committed credit facility expiring in fiscal 2003 with an annual renewal in the fourth quarter of fiscal 2001. The Company believes that the total of available lines of credit plus cash flows from operating activities is adequate for the Company's fiscal 2001 operational and capital expenditure needs. The Company is in compliance with all of its loan covenants. Capital expenditures of \$9.0 million in fiscal 2000 compare to \$4.5 million in fiscal 1999. Spending in fiscal year 2000 was primarily related to capitalization of Company-wide enterprise resource planning software and related implementation costs, expansion of the Company's facilities, equipment, and tooling for new products. Capital expenditures totaling approximately \$7 million are planned for fiscal 2001, exclusive of business acquisitions.

On August 17, 2000 the Board of Directors declared a cash dividend of \$0.13 per share (approximately \$1,339,000) comprised of a \$0.08 per share regular quarterly dividend and a \$0.05 per share special year-end dividend, to be paid September 12, 2000 to shareholders of record on September 5, 2000. During fiscal 2000, the Company paid cash dividends each quarter. Cash paid for dividends in fiscal 2000 was \$4.0 million, a 22% increase over the \$3.2 million paid in fiscal 1999.

The Company continues to seek opportunities to invest in new products and markets, and in acquisitions which fit its strategic growth plans in the lighting and graphics markets. The Company believes that adequate financing for any such investments or acquisitions will be available through future borrowings or through the issuance of common or preferred shares in payment for acquired businesses.

LSI Industries Inc.

Consolidated Income Statements

For the years ended June 30, 2000, 1999, and 1998

(In thousands, except per share)

	2000	1999	1998
Net sales	\$235,601	\$227,789	\$189,139
Cost of products sold	156,606	150,681	124,659
Gross profit	78,995	77,108	64,480
Selling and administrative expenses	50,439	49,880	44,286
Operating income	28,556	27,228	20,194
Interest (income)	(1,057)	(477)	(143)
Interest expense	189	224	106
Other expense	15	95	108
Income from continuing operations before income taxes	29,409	27,386	20,123
Income tax expense	11,130	10,285	7,536
Income from continuing operations	18,279	17,101	12,587
Discontinued operations, net of tax benefit of \$538	1,000	—	—
Net income	\$ 17,279	\$ 17,101	\$ 12,587
Earnings per common share from continuing operations			
Basic earnings per share	\$ 1.79	\$ 1.73	\$ 1.32
Diluted earnings per share	\$ 1.77	\$ 1.70	\$ 1.29
Earnings per common share			
Basic earnings per share	\$ 1.69	\$ 1.73	\$ 1.32
Diluted earnings per share	\$ 1.67	\$ 1.70	\$ 1.29

The accompanying notes are an integral part of these financial statements.

LSI Industries Inc.

Consolidated Balance Sheets

June 30, 2000 and 1999

(In thousands, except shares)

	2000	1999
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 21,966	\$ 13,881
Accounts receivable, less allowance for doubtful accounts of \$1,239 and \$1,213, respectively	35,424	39,630
Inventories	25,293	25,261
Refundable income taxes	1,160	157
Other current assets	3,237	2,530
Total current assets	87,080	81,459
Property, Plant and Equipment, at cost		
Land	3,947	3,863
Buildings	20,522	18,477
Machinery and equipment	32,436	29,430
Construction in progress	4,842	1,212
	61,747	52,982
Less accumulated depreciation	(24,625)	(19,997)
Net property, plant and equipment	37,122	32,985
Goodwill, net	22,581	23,270
	\$146,783	\$137,714

The accompanying notes are an integral part of these financial statements.

	2000	1999
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable to bank	\$ —	\$ 379
Current maturities of long-term debt	203	196
Accounts payable	12,349	14,628
Accrued expenses	11,606	16,150
Net liabilities from discontinued operations	1,783	491
Total current liabilities	25,941	31,844
Long-Term Debt	1,498	1,705
Deferred Income Taxes	1,132	1,413
Shareholders' Equity		
Preferred shares, without par value; Authorized 1,000,000 shares, none issued	—	—
Common shares, without par value; Authorized 30,000,000 shares; Outstanding 10,291,730 and 10,151,690 shares, respectively	47,719	45,588
Retained earnings	70,493	57,164
Total shareholders' equity	118,212	102,752
	\$146,783	\$137,714

LSI Industries Inc.
Consolidated Statements of Shareholders' Equity

For the years ended June 30, 2000, 1999, and 1998

(In thousands, except per share data)

	Common Shares		Retained Earnings	Total
	Number of Shares	Amount		
Balance at June 30, 1997	9,499	\$ 34,516	\$ 33,452	\$ 67,968
Net income	—	—	12,587	12,587
Purchase of treasury shares	(12)	(233)	—	(233)
Deferred stock compensation	—	209	—	209
Stock options exercised, net	136	676	—	676
Common shares issued for acquisition	12	200	—	200
Dividends - \$.29 per share	—	—	(2,750)	(2,750)
Balance at June 30, 1998	9,635	35,368	43,289	78,657
Net income	—	—	17,101	17,101
Purchase of treasury shares	(12)	(224)	—	(224)
Deferred stock compensation	—	334	—	334
Stock options exercised, net	124	1,285	—	1,285
Common shares issued for acquisitions	405	8,825	—	8,825
Dividends - \$.33 per share	—	—	(3,226)	(3,226)
Balance at June 30, 1999	10,152	45,588	57,164	102,752
Net income	—	—	17,279	17,279
Purchase of treasury shares	(14)	(349)	—	(349)
Deferred stock compensation	—	338	—	338
Stock options exercised, net	154	2,142	—	2,142
Dividends - \$.39 per share	—	—	(3,950)	(3,950)
Balance at June 30, 2000	10,292	\$47,719	\$70,493	\$118,212

The accompanying notes are an integral part of these financial statements.

LSI Industries Inc.

Consolidated Statements of Cash Flows

For the years ended June 30, 2000, 1999, and 1998

(In thousands)

	2000	1999	1998
Cash Flows From Operating Activities			
Net income	\$17,279	\$17,101	\$12,587
Non-cash items included in income			
Depreciation and amortization	5,511	4,813	4,375
Deferred income taxes	(566)	(84)	(401)
Deferred compensation plan	338	334	209
Loss on disposition of fixed assets	15	95	108
Change (excluding effects of acquisitions) in			
Accounts receivable	4,206	(4,075)	(5,326)
Inventories	(32)	2,273	(1,569)
Refundable income taxes	(1,003)	117	—
Accounts payable	(2,279)	(262)	1,086
Accrued expenses and other	(4,966)	348	3,235
Net liabilities from discontinued operations	1,292	(70)	(21)
Net cash flows from operating activities	19,795	20,590	14,283
Cash Flows From Investing Activities			
Purchase of property, plant, and equipment	(8,977)	(4,455)	(4,120)
Proceeds from sale of fixed assets	3	14	30
Acquisition of businesses, net of cash received	—	(8,657)	(712)
Net cash flows from investing activities	(8,974)	(13,098)	(4,802)
Cash Flows From Financing Activities			
Increase (decrease) of borrowings under line of credit	(379)	379	—
Proceeds from issuance of long-term debt	—	919	—
Payment of long-term debt	(200)	(2,082)	(448)
Cash dividends paid	(3,950)	(3,226)	(2,750)
Exercise of stock options	2,142	1,285	676
Purchase of treasury shares	(349)	(224)	(233)
Net cash flows from financing activities	(2,736)	(2,949)	(2,755)
Increase in cash and cash equivalents	8,085	4,543	6,726
Cash and cash equivalents at beginning of year	13,881	9,338	2,612
Cash and cash equivalents at end of year	\$21,966	\$13,881	\$ 9,338

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation:

The consolidated financial statements include the accounts of LSI Industries Inc. (an Ohio corporation) and its subsidiaries, all of which are wholly owned. All significant intercompany transactions and balances have been eliminated.

Revenue recognition:

Revenue is recognized when the customer accepts title and the resultant risks and rewards of ownership. Generally this occurs upon shipment of goods or shortly thereafter. Amounts received from customers prior to the recognition of revenue are accounted for as customer pre-payments and are included in accrued expenses.

Cash and cash equivalents:

The cash balance includes cash and cash equivalents which have original maturities of less than three months.

Inventories:

Inventories are stated at the lower of cost or market. Cost is determined on the first-in, first-out basis.

Property, plant and equipment and related depreciation:

Property, plant and equipment are stated at cost. Major additions and betterments are capitalized while maintenance and repairs are expensed. For financial reporting purposes, depreciation is computed on the straight-line method over the estimated useful lives of the assets as follows:

Buildings	31 - 40 years
Machinery and equipment	3 - 10 years

Goodwill:

The excess of cost over fair value of assets acquired ("goodwill") is amortized over periods

ranging between twenty and forty years. As of June 30, 2000 and 1999, accumulated amortization of goodwill was \$1,827,000 and \$1,138,000, respectively. The Company periodically evaluates goodwill and other long-lived assets for permanent impairment based upon anticipated cash flows. To date no impairments have been recorded, nor are any anticipated.

Fair value of financial instruments:

The Company has financial instruments consisting primarily of cash and cash equivalents, revolving lines of credit, and long-term debt. The fair value of these financial instruments approximates carrying value because of their short-term maturity and/or variable, market-driven interest rates. The Company has no financial instruments with off-balance sheet risk.

Employee benefit plans:

The Company has a defined contribution retirement plan and a discretionary profit sharing plan covering substantially all of its employees, a second discretionary profit sharing plan covering employees of one subsidiary, and a non-qualified deferred compensation plan covering certain employees. The costs of employee benefit plans are charged to expense and funded annually. Total costs were \$2,052,000 in 2000, \$1,937,000 in 1999, and \$1,641,000 in 1998.

Income taxes:

Deferred income taxes are provided on items reported in income in different periods for financial reporting and tax purposes.

Earnings per common share:

The computation of basic earnings per common share is based on the weighted average common shares outstanding for the period. The computation of diluted earnings per share includes common share equivalents. Common share equivalents include the dilutive effect of stock options, contingently issuable shares (for which issuance has been determined to be probable), and common

shares to be issued under a deferred compensation plan, all of which totaled 159,000 shares in 2000, 205,000 shares in 1999, and 231,000 shares in 1998. See also Notes 4 and 7.

Recent pronouncements:

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130 (SFAS No. 130), "Reporting Comprehensive Income," which establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains, and losses) in a full set of general-purpose financial statements. SFAS No. 130 is effective for financial statements for annual periods beginning after December 15, 1997 (fiscal 1999 for the Company). The financial statements of the Company were not impacted by adoption of this new standard.

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131 (SFAS No. 131), "Disclosures About Segments of an Enterprise and Related Information." This Statement requires disclosure related to each segment into which a company is organized by the chief operating decision maker for the purpose of making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure and any manner in which management disaggregates a company. The Company adopted SFAS No. 131 during fiscal 1999. This Statement, which requires expansion or modification to existing disclosures, had no impact on the Company's reported consolidated financial position, results of operations or cash flows. See Note 3 for business segment information.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 (SFAS No. 133), "Accounting for Derivative Instruments and for Hedging Activities," which establishes standards for reporting and disclosure of derivative and hedging instruments. SFAS No. 133 is effective for fiscal years beginning after June 15, 2000. The Company will not be affected by this new standard

because the Company has no derivative or hedging financial instruments.

Reclassification:

Certain reclassifications have been made to prior year amounts in order to be consistent with the presentation for the current year.

Use of estimates:

The preparation of the financial statements in conformity with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 2 - DISCONTINUED OPERATIONS

In 1992 the Company sold the assets and operations of its U.K. subsidiary, Duramark, to its management and reported a loss from discontinued operations. Consideration received included cash and assumption of liabilities by management. The remaining liabilities, including those associated with the lease on the U.K. facility, which were not assumed by the management buy-out group of the discontinued operations, net of related taxes, were retained by the Company. The lease on the now vacant facility is guaranteed by the Company through its expiration in March 2001. For the past several years the Company has been involved in both litigation and negotiations related to lease payments (unpaid since 1995), to maintenance of the facility, and to the remaining lease obligation through March 2001 with the various entities associated with this lease. In the fourth quarter of fiscal year 2000 the Company settled all outstanding lease matters with a sublessee at less than amounts previously anticipated. The \$608,000 settlement payment received was added to the Company's reserve for discontinued operations. In the first quarter of fiscal year 2001 the Company made an offer to settle all obligations with respect to the lease.

In the fourth quarter of fiscal year 2000 the Company recorded a charge to discontinued

operations of \$1.5 million (\$1.0 million net of income taxes or \$0.10 per share) to increase its reserve for remaining liabilities associated with the lease. The Company expects settlement of lease obligations to approximate the \$2.7 million now in its reserve, and will vigorously contest any litigation or other action that could increase this liability. The maximum liability through the March 2001 expiration of the lease, including obligations with respect to maintenance of the facility, could be approximately \$4.5 million.

The reserve for discontinued operations incurred the following activity during fiscal years 2000 and 1999:

	2000	1999
<i>(In thousands)</i>		
Balance Beginning of year	\$ 755	\$864
less: Payments made	(156)	(109)
plus: Settlement received	608	—
plus: Charge to discontinued operations	1,538	—
Balance June 30, 2000	\$2,745	\$755

The Company's reserve for discontinued operations, net of related taxes, is included in current liabilities in the amounts of \$1,783,000 and \$491,000 as of June 30, 2000 and 1999, respectively.

NOTE 3 - BUSINESS SEGMENT INFORMATION

LSI operates in two business segments - the Image Group and the Commercial / Industrial Lighting Group. The Image Group manufactures and sells exterior and interior visual image elements (lighting, graphics, and menu board systems) for the petroleum / convenience store market and for multi-site retail operations. The Image Group includes the operations of LSI Petroleum Lighting, LSI Automotive, LSI Images, LSI Metal Fabrication, SGI Integrated Graphic Systems, Grady McCauley, and LSI Retail Graphics. The Commercial / Industrial Lighting Group manufactures and sells primarily outdoor, indoor, and landscape lighting for the commercial / industrial and multi-site retail markets. The Commercial / Industrial Lighting Group includes

the operations of LSI Lighting Systems, Courtsider Lighting, Greenlee Lighting, LSI Marcole, and LSI MidWest Lighting. The Company's most significant market is the petroleum / convenience store market with approximately 38%, 43%, and 49% of net sales concentrated in this market in fiscal 2000, 1999, and 1998, respectively.

The following information is provided for the following periods:

	2000	1999	1998
<i>(In thousands)</i>			
Net sales:			
Image Group	\$155,896	\$159,277	\$138,886
Commercial / Industrial Lighting Group	79,705	68,512	50,253
	\$235,601	\$227,789	\$189,139
Operating income:			
Image Group	\$ 21,024	\$ 19,848	\$ 15,056
Commercial / Industrial Lighting Group	7,532	7,380	5,138
	\$ 28,556	\$ 27,228	\$ 20,194
Identifiable assets:			
Image Group	\$ 84,513	\$ 86,011	\$ 79,487
Commercial / Industrial Lighting Group	38,588	37,645	20,730
	123,101	123,656	100,217
Corporate	23,682	14,058	10,099
	\$146,783	\$137,714	\$110,316
Capital expenditures:			
Image Group	\$ 6,279	\$ 3,214	\$ 3,029
Commercial / Industrial Lighting Group	2,698	1,241	1,091
	\$ 8,977	\$ 4,455	\$ 4,120
Depreciation and amortization:			
Image Group	\$ 3,687	\$ 3,425	\$ 3,410
Commercial / Industrial Lighting Group	1,824	1,388	965
	\$ 5,511	\$ 4,813	\$ 4,375

Operating income of the business segments includes net sales less all operating expenses, including allocations of corporate expense. Sales between business segments are immaterial.

Identifiable assets are those assets used by each segment in its operations, including allocations of shared assets. Corporate assets consist primarily of cash and cash equivalents, and refundable income taxes.

NOTE 4 - EARNINGS PER COMMON SHARE

The following table presents the amounts used to compute earnings per common share and the effect of dilutive potential common shares on net income and weighted average shares outstanding:

<i>(In thousands, except per share)</i>	2000	1999	1998
BASIC EARNINGS PER SHARE			
Income from continuing operations	\$18,279	\$17,101	\$12,587
Net income	\$17,279	\$17,101	\$12,587
Weighted average shares outstanding during the period, net of treasury shares	10,195	9,883	9,559
Basic earnings per share from continuing operations	\$ 1.79	\$ 1.73	\$ 1.32
Basic earnings per share	\$ 1.69	\$ 1.73	\$ 1.32
DILUTED EARNINGS PER SHARE			
Income from continuing operations	\$18,279	\$17,101	\$12,587
Net income	\$17,279	\$17,101	\$12,587
Weighted average shares outstanding during the period, net of treasury shares	10,195	9,883	9,559

Effect of dilutive securities (A):

Impact of common shares to be issued under stock option plans, a deferred compensation plan, and contingently issuable shares	159	205	231
Weighted average shares outstanding (B)	10,354	10,088	9,790
Diluted earnings per share from continuing operations	\$ 1.77	\$ 1.70	\$ 1.29
Diluted earnings per share	\$ 1.67	\$ 1.70	\$ 1.29

(A) Calculated using the "Treasury Stock" method as if dilutive securities were exercised and the funds were used to purchase common shares at the average market price during the period.

(B) Options to purchase 36,105 common shares, 14,359 common shares, and 4,390 common shares at June 30, 2000, 1999, and 1998, respectively, were not included in the computation of diluted earnings per share because the exercise price was greater than the average fair market value of the common shares.

NOTE 5 - BALANCE SHEET DATA

The following information is provided as of June 30:

	2000	1999
<i>(In thousands)</i>		
Inventories:		
Raw materials	\$11,824	\$12,485
Work-in-process and finished goods	13,469	12,776
	\$25,293	\$25,261
Accrued Expenses:		
Compensation and benefits	\$ 5,725	\$ 8,659
Customer prepayments	\$ 1,144	\$ 1,662

NOTE 6 - REVOLVING LINES OF CREDIT, AND LONG-TERM DEBT

The Company has two unsecured revolving lines of credit with its banks in the aggregate amount of \$32 million, all of which was available as of June 30, 2000. A \$12 million line of credit expires in the third quarter of fiscal 2001. The primary line of credit in the amount of \$20 million is a three year committed credit facility expiring in fiscal 2003, with an annual renewal for the third year of commitment in the fourth quarter of fiscal 2001. Interest on the revolving lines of credit is charged based upon an increment over the LIBOR rate as periodically determined, or at the bank's base lending rate less an increment, at the Company's option. The increment over the LIBOR borrowing rate, as periodically determined, on the Company's primary line of credit fluctuates between 50 and 95 basis points and the commitment fee on the unused balance fluctuates between 15 and 25 basis points depending upon the ratio of indebtedness to earnings before interest, taxes, depreciation and amortization (EBITDA). The increment over the LIBOR borrowing rate, as periodically determined, on the Company's secondary line of credit fluctuates between 50 and 125 basis points depending upon the ratio of indebtedness to tangible net worth. The increment under the bank's base lending rate on both lines of credit fluctuates between 150 and 75 basis points depending upon the same performance ratios as under LIBOR borrowings. At June 30, 2000 the interest rate on this revolving line of credit would be 7.25%. Under terms of these agreements, the Company has agreed to a negative pledge of assets, to maintain minimum levels of profitability and net worth, and is subject to certain maximum levels of leverage. The Company did not borrow under its revolving lines of credit during fiscal year 2000.

The Company has an Industrial Revenue Development Bond (IRB) borrowing in the amount of \$935,000 associated with its facility in Northern Kentucky. The term of this IRB is 15 years with semi-annual interest payments and annual principal payments for retirement of bond principal in increasing amounts over the term of the bonds through fiscal 2010. The IRB interest rate, which is reestablished semi-annually, is currently 5.0%,

plus a 75 basis point letter of credit fee. The IRB is secured by the Company's Kentucky real estate, which has a net carrying value of \$1.6 million.

The Company has equipment loans outstanding totaling \$766,000 with a bank and a governmental agency. The loans are for terms of seven years through fiscal 2006 at a weighted average interest rate of 5.6% and are secured by specified equipment which has a net carrying value of \$993,000. The Company makes monthly principal and interest payments and is committed to specified job growth in its facility in Northeast Ohio.

	2000	1999
<i>(In thousands)</i>		
Long-term debt:		
Industrial Revenue		
Development Bond at 5.0%	\$ 935	\$1,005
Equipment loans (average rate of 5.6%)	766	896
	1,701	1,901
Less current maturities	203	196
	\$1,498	\$1,705

Future maturities of long-term debt at June 30, 2000 are as follows (in thousands):

2001	2002	2003	2004	2005	2006 and after
\$203	\$210	\$212	\$218	\$226	\$632

NOTE 7 - SHAREHOLDERS' EQUITY

The Company has stock option plans which cover all of its full-time employees and has a plan covering all non-employee directors. The options granted pursuant to these plans are granted at fair market value at date of grant. Options granted to non-employee directors are immediately exercisable and options granted to employees generally become exercisable 25% per year (cumulative) beginning one year after the date of grant. The number of shares reserved for issuance is 890,126, of which 329,750 shares were available for future grant as of June 30, 2000. The plans allow for the grant of both incentive stock options and non-qualified stock options. In the first quarter of fiscal year 2001 the Company granted options to purchase 193,000 common shares to 46 key employees and managers.

Statement of Financial Accounting Standards No. 123 (SFAS No. 123) requires, at a minimum, pro forma disclosures of expense for stock-based awards based on their fair values. The fair value of each option on the date of grant has been estimated using the Black-Scholes option pricing model. The following weighted average assumptions were used for grants in fiscal 2000, 1999, and 1998.

	2000	1999	1998
Dividend yield	1.25%	1.25%	2%
Expected volatility	42%	44%	49%
Risk-free interest rate	6.14%- 6.90%	4.45%- 6.24%	5.56%- 6.54%
Expected life	4-8 yrs.	4-8 yrs.	4-8 yrs.

At June 30, 2000, the 18,800 options granted during fiscal 2000 to employees and non-employee directors have exercise prices ranging from \$17.69 to \$23.25, fair values ranging from \$7.49 to \$11.84 per option, and remaining contractual lives of four to nine years. The 56,900 options granted during fiscal 1999 to employees and non-employee directors had, at June 30, 1999, exercise prices ranging from \$16.88 to \$23.00, fair values ranging from \$8.49 to \$11.89 per option, and remaining contractual lives of four to nine years. The 154,400 options granted during fiscal 1998 to employees and non-employee directors had, as of June 30, 1998, exercise prices ranging from \$14.00 to \$19.00, fair values ranging from \$6.16 to \$9.44, and remaining contractual lives of four to nine years.

If the Company had adopted the expense recognition provisions of SFAS No. 123, net income and earnings per share for the years ended June 30, 2000, 1999, and 1998 would have been as follows:

	2000	1999	1998
<i>(In thousands except earnings per share)</i>			
Net income			
As reported	\$17,279	\$17,101	\$12,587
Pro forma	\$17,035	\$16,629	\$12,225
Earnings per share			
Basic			
As reported	\$ 1.69	\$ 1.73	\$ 1.32
Pro forma	\$ 1.67	\$ 1.68	\$ 1.28
Diluted			
As reported	\$ 1.67	\$ 1.70	\$ 1.29
Pro forma	\$ 1.65	\$ 1.66	\$ 1.26

Since SFAS No. 123 has not been applied to options granted prior to December 15, 1994, the resulting compensation cost shown above may not be representative of that expected in future years.

Information involving the stock option plans for the years ended June 30, 2000, 1999, and 1998 is shown in the table below:

	2000	
	Shares	Weighted Average Exercise Price
<i>(Shares in thousands)</i>		
Outstanding at beginning of year	408	\$14.41
Granted	19	21.74
Terminated	(7)	16.03
Exercised	(178)	12.79
Outstanding at end of year	242	\$16.13
Exercisable at end of year	109	\$15.00

	1999	
	Shares	Weighted Average Exercise Price
<i>(Shares in thousands)</i>		
Outstanding at beginning of year	500	\$12.70
Granted	57	19.82
Terminated	(8)	16.23
Exercised	(141)	10.33
Outstanding at end of year	408	\$14.41
Exercisable at end of year	129	\$12.92

	1998	
	Shares	Weighted Average Exercise Price
<i>(Shares in thousands)</i>		
Outstanding at beginning of year	518	\$ 9.89
Granted	154	15.31
Terminated	(17)	13.86
Exercised	(155)	5.79
Outstanding at end of year	500	\$12.70
Exercisable at end of year	128	\$ 9.40

The Company implemented a non-qualified Deferred Compensation Plan in fiscal 1997. All Plan investments are in common shares of the Company. A total of 59,566 and 45,030 common shares were held in the Plan as of June 30, 2000

and 1999, respectively, and, accordingly, have been recorded as treasury shares.

On the dates indicated, the Company issued the following amounts of common shares as a portion of the purchase price for acquired businesses (see further discussion in Note 11):

Date	Number of Common Shares	Stated Value
6/30/97	475,700	\$6,000,000
2/6/98	12,000	\$ 200,000
1/1/99	357,143	\$8,000,000
4/9/99	47,578	\$ 825,000

On August 17, 2000, the Board of Directors declared a cash dividend of \$0.13 per share, comprised of a \$0.08 regular quarterly dividend and a \$0.05 special year-end dividend, to be paid September 12, 2000 to shareholders of record on September 5, 2000. Annual cash dividend payments made during fiscal years 2000, 1999, and 1998 were \$0.39, \$0.33, and \$0.29 per share, respectively.

NOTE 8 - LEASES

The Company leases certain of its facilities and equipment under operating lease arrangements. Rental expense was \$1,385,000 in 2000, \$1,174,000 in 1999, and \$1,094,000 in 1998. Minimum annual rental commitments under non-cancelable operating leases are: \$1,013,000 in 2001, \$318,000 in 2002, \$76,000 in 2003, \$8,000 in 2004, and \$1,000 in 2005.

NOTE 9 - INCOME TAXES

The following information is provided for the years ended June 30:

	2000	1999	1998
<i>(In thousands)</i>			
Provision (benefit) for income taxes:			
Current federal	\$10,773	\$ 9,466	\$7,143
Current state and local	923	903	794
Deferred	(566)	(84)	(401)
	\$11,130	\$10,285	\$7,536

Reconciliation to federal statutory rate:

Federal statutory tax rate	35.0%	35.0%	35.0%
State and local taxes	2.0	2.1	2.6
Goodwill and other	.8	.5	(.1)
Effective tax rate	37.8%	37.6%	37.5%

The components of deferred income tax assets and (liabilities) at June 30, 2000 and 1999 are as follows:

	2000	1999
<i>(In thousands)</i>		
Reserves against current assets	\$ 818	\$ 862
Prepaid expenses	(707)	(410)
Accrued expenses	882	953
Depreciation	(1,694)	(1,853)
Goodwill and acquisition costs	132	129
Deferred compensation	430	311
Net liabilities from discontinued operations	962	264
Net deferred income tax asset	\$ 823	\$ 256

Reconciliation to the balance sheets as of June 30, 2000 and 1999:

	2000	1999
<i>(In thousands)</i>		
Deferred income tax asset (liability) included in:		
Other current assets	\$ 993	\$ 1,405
Net liabilities from discontinued operations	962	264
Long-term deferred income tax liability	(1,132)	(1,413)
Net deferred income tax asset	\$ 823	\$ 256

NOTE 10 - SUPPLEMENTAL CASH FLOW INFORMATION

	2000	1999	1998
<i>(In thousands)</i>			
Cash payments:			
Interest	\$ 160	\$ 148	\$ 126
Income taxes	\$12,520	\$10,034	\$7,184

Non-cash investing and financing activities:

Value of common shares issued for acquisitions	\$	—	\$ 8,825	\$ 200
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Details of acquisitions:

Working capital, less cash	\$	—	\$ 2,417	\$ 59
Property, plant & equipment		—	5,241	647
Other assets, net		—	(947)	(4)
Excess of purchase price paid over estimated net assets of acquired businesses	\$	—	10,771	210
			—	17,482
Less fair value of common shares issued		—	(8,825)	(200)
Cash paid for acquisitions	\$	—	\$ 8,657	\$ 712

NOTE 11 - ACQUISITIONS

On April 9, 1999, the Company acquired substantially all assets and assumed certain liabilities of Retail Graphics, Inc., a privately owned manufacturer of interior graphics primarily for the retail store market. For financial statement purposes the acquisition was accounted for as a purchase with operating results of LSI Retail Graphics first included in the Company's fourth quarter fiscal 1999 results in the Image Group. The total purchase price for the business, exclusive of acquisition costs, was \$3,300,000, consisting of \$2,475,000 in cash and 47,578 common shares of the Company (valued at \$825,000). The acquisition provides for a contingent "earn-out" having a maximum value of \$600,000, payable in similar percentages of cash and common shares, which could be earned during the first two years after acquisition providing certain minimum net sales and earnings thresholds are exceeded. There was no earn-out paid at the conclusion of year one. An additional approximate \$1 million was used

immediately following the acquisition to reduce acquired liabilities. The purchase price exceeded the estimated fair value of net assets acquired by \$3.2 million, which is recorded as goodwill and is being amortized over twenty years.

The Company completed the acquisition of Mid-West Chandelier Company and Fairfax Lighting, Inc., two privately owned manufacturers of interior fluorescent lighting fixtures, effective January 1, 1999. For financial statement purposes these acquisitions were accounted for as purchases with operating results of LSI MidWest Lighting first included in the Company's third quarter fiscal 1999 results in the Commercial / Industrial Lighting Group. The total purchase price for the two companies was \$16,000,000, exclusive of acquisition costs, consisting of \$8,000,000 in cash and 357,143 common shares of the Company (valued at \$8,000,000). The acquisition provides for a contingent "earn-out" having a maximum value of \$1 million in cash and \$1 million in stock which could be earned during the three years subsequent to the merger providing certain minimum earnings thresholds are exceeded. There was no earn-out paid at the conclusion of year one. An additional approximate \$1 million was used immediately following the acquisition to reduce acquired liabilities. The purchase price exceeded the estimated fair value of net assets acquired by \$7.7 million, which is recorded as goodwill and is being amortized over forty years.

On February 6, 1998, the Company acquired the outstanding common shares of Marcole, Inc., a privately owned manufacturer of electrical wiring harnesses primarily for the appliance industry. For financial statement purposes the acquisition was accounted for as a purchase with operating results of Marcole first included in the Company's fiscal 1998 third quarter financial statements in the Commercial / Industrial Lighting Group. The purchase price was 12,000 common shares of the Company (valued at \$200,000) plus \$712,000 in cash. The purchase price exceeded the estimated fair value of net assets acquired by \$210,000, which is recorded as goodwill and is being amortized over forty years.

NOTE 12 - SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

<i>(In thousands, except per share data)</i>	Quarter Ended				Fiscal Year
	Sept. 30	Dec. 31	March 31	June 30	
2000					
Net sales	\$64,014	\$62,967	\$52,326	\$56,294	\$235,601
Gross profit	21,095	21,747	17,324	18,829	78,995
Income from continuing operations	5,357	5,646	3,170	4,106	18,279
Earnings per share from continuing operations					
Basic	\$.53	\$.55	\$.31	\$.40	\$ 1.79
Diluted	\$.52	\$.55	\$.31	\$.40	\$ 1.77(a)
Range of share prices					
High	\$ 25.25	\$ 25.50	\$ 21.56	\$ 22.16	\$ 25.50
Low	\$ 22.63	\$ 19.13	\$ 14.69	\$ 12.50	\$ 12.50
1999					
Net sales	\$53,414	\$56,059	\$53,408	\$64,908	\$227,789
Gross profit	18,234	19,759	17,009	22,106	77,108
Income from continuing operations	3,912	4,668	3,083	5,438	17,101
Earnings per share					
Basic	\$.41	\$.48	\$.31	\$.54	\$ 1.73(a)
Diluted	\$.40	\$.47	\$.30	\$.53	\$ 1.70
Range of share prices					
High	\$ 22.00	\$ 23.00	\$ 22.75	\$ 24.38	\$ 24.38
Low	\$ 17.25	\$ 15.75	\$ 15.88	\$ 17.25	\$ 15.75
1998					
Net sales	\$43,957	\$47,754	\$43,386	\$54,042	\$189,139
Gross profit	15,519	17,120	13,717	18,124	64,480
Income from continuing operations	2,975	3,680	1,917	4,015	12,587
Earnings per share					
Basic	\$.31	\$.39	\$.20	\$.42	\$ 1.32
Diluted	\$.31	\$.38	\$.20	\$.41	\$ 1.29(a)
Range of share prices					
High	\$ 17.38	\$ 19.38	\$ 22.75	\$ 24.00	\$ 24.00
Low	\$ 13.50	\$ 15.75	\$ 16.75	\$ 18.38	\$ 13.50

(a) The total of the earnings per share for each of the four quarters does not equal the total earnings per share for the full year because the calculations are based on the average shares outstanding during each of the individual periods.

At August 21, 2000, there were 477 shareholders of record. The Company believes this represents approximately 3,500 beneficial shareholders.

Report of Independent Public Accountants

To the Board of Directors of LSI Industries Inc.:

We have audited the accompanying consolidated balance sheets of LSI Industries Inc. (an Ohio corporation) and subsidiaries as of June 30, 2000 and 1999, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended June 30, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LSI Industries Inc. and subsidiaries as of June 30, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2000 in conformity with accounting principles generally accepted in the United States.



Arthur Andersen LLP

Cincinnati, Ohio
August 17, 2000

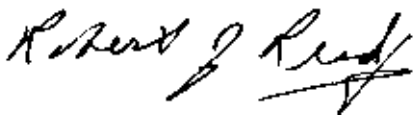
Report of Management

The Management of LSI Industries Inc. is responsible for the preparation and accuracy of the financial statements and other information included in this report. The financial statements have been prepared in accordance with generally accepted accounting principles using, where appropriate, management's best estimates and judgment.

In meeting its responsibility for the reliability of the financial statements, the Company depends upon its system of internal accounting controls. The system is designed to provide reasonable assurance that assets are safeguarded and that transactions are properly authorized and recorded. The system is supported by policies and guidelines, and by careful selection and training of financial management personnel.

The Company's independent public accountants, Arthur Andersen LLP, are retained to audit the LSI Industries Inc. consolidated financial statements. Their audit is conducted in accordance with generally accepted auditing standards and provides an independent assessment of the presentation of the Company's financial statements.

The Board of Directors meets its responsibility for overview of the Company's financial statements through its Audit Committee which is composed entirely of Directors who are not employees of the Company. The Audit Committee meets periodically with Management and with the independent public accountants to review and assess the activities of each in meeting their respective responsibilities. The independent public accountants have full access to the Audit Committee to discuss the results of their audit work, the adequacy of internal accounting controls, and the quality of financial reporting.



Robert J. Ready
President and Chief Executive Officer



Ronald S. Stowell
Vice President, Chief Financial Officer, and Treasurer

LSI Industries Inc.

Selected Financial Data

The following data has been selected from the Consolidated Financial Statements of the Company for the periods and dates indicated:

(In thousands except per share data)

Income Statement Data:

	2000	1999	1998	1997	1996
Net sales	\$235,601	\$227,789	\$189,139	\$144,742	\$152,733
Cost of products sold	156,606	150,681	124,659	96,200	104,221
Operating expenses	50,439	49,880	44,286	34,833	35,101
Operating income	28,556	27,228	20,194	13,709	13,411
Interest (income)	(1,057)	(477)	(143)	(528)	(154)
Interest expense	189	224	106	41	498
Other expense	15	95	108	114	62
Income from continuing operations before income taxes	29,409	27,386	20,123	14,082	13,005
Income taxes	11,130	10,285	7,536	5,210	4,735
Income from continuing operations	\$ 18,279	\$ 17,101	\$ 12,587	\$ 8,872	\$ 8,270
Net income	\$ 17,279	\$ 17,101	\$ 12,587	\$ 8,872	\$ 6,770
Earnings per common share from continuing operations					
Basic	\$ 1.79	\$ 1.73	\$ 1.32	\$.99	\$ 1.02
Diluted	\$ 1.77	\$ 1.70	\$ 1.29	\$.97	\$.98
Cash dividends paid per share	\$.39	\$.33	\$.29	\$.23	\$.21
Weighted average common shares					
Basic	10,195	9,883	9,559	9,004	8,096
Diluted	10,354	10,088	9,790	9,188	8,456

Balance Sheet Data:

(At June 30)	2000	1999	1998	1997	1996
Working capital	\$ 61,139	\$ 49,615	\$ 40,237	\$ 30,192	\$ 36,146
Total assets	146,783	137,714	110,316	95,189	79,496
Long-term debt, including current maturities	1,701	1,901	1,195	1,382	1,562
Shareholders' equity	118,212	102,752	78,657	67,968	54,737

Corporate Information

Board of Directors

Robert J. Ready

*President, Chief Executive Officer &
Chairman of the Board
Chairman of Executive Committee*

James P. Sferra

*Secretary - LSI Industries Inc.
Executive Vice President - Manufacturing
Member of Executive Committee*

Michael J. Burke

*Managing Partner - Keating, Muething & Klekamp, P.L.L.,
Cincinnati, Ohio
Assistant Secretary - LSI Industries Inc.
Chairman of Compensation Committee
Member of Audit Committee*

Allen L. Davis

*Chief Executive Officer - CNG Financial Corporation
Member of Audit Committee
Member of Compensation Committee*

Wilfred T. O'Gara

*Co-Chief Executive Officer - The Kroll-O'Gara
Company, Cincinnati, Ohio
Chairman of Audit Committee
Member of Compensation Committee*

Corporate Officers

Robert J. Ready

President and Chief Executive Officer

James P. Sferra

Secretary; Executive Vice President - Manufacturing

Ronald S. Stowell

Vice President, Chief Financial Officer, and Treasurer

Michael J. Burke

Assistant Secretary

Independent Public Accountants

Arthur Andersen LLP

Cincinnati, Ohio

Legal Counsel

Keating, Muething & Klekamp, P.L.L.
Cincinnati, Ohio

Transfer Agent and Registrar

The Provident Bank
One East Fourth Street
Cincinnati, Ohio 45202

Annual Meeting

The annual shareholders' meeting of LSI Industries Inc. will be held Thursday, November 9, 2000 at 10:00 a.m. at the Company's corporate offices located at 10000 Alliance Road, Cincinnati, Ohio.

Dividend Reinvestment Plan

The LSI Industries Automatic Dividend Reinvestment and Stock Purchase Plan offers registered shareholders and employees an opportunity to purchase additional shares through automatic dividend reinvestment and/or optional cash investments. For additional information, contact:

Provident Bank
Corporate Trust Operations
309 Vine Street, 669D
Cincinnati, Ohio 45202
(513) 763-8113 or (800) 262-9801 ext.-18113
E-mail: corporatetrust@provident-bank.com

Form 10-K

Shareholders may obtain the 2000 Annual Report on Form 10-K as filed with the Securities and Exchange Commission without charge by writing to:

Investor Relations Manager
LSI Industries Inc.
10000 Alliance Road
Cincinnati, Ohio 45242

Stock Exchange Listing

LSI Industries Inc. Common Shares are traded on The Nasdaq Stock Market under the symbol LYTS.

Internet Site

The LSI Industries site on the Internet, www.lsi-industries.com contains the Company's 10-K and 10-Q filings, proxy statements, annual reports, news releases, stock prices, and a variety of other information about LSI Industries and its products.

OPERATING FACILITIES

Location	Telephone Number	Operations/Products & Services
Ohio		
Cincinnati	513-793-3200	Corporate headquarters; Lighting
North Canton	330-494-9444	Graphics
Kansas		
Kansas City	913-281-1100	Lighting
Kentucky		
Independence	859-342-9944	Menu boards; Metal fabrication
Rhode Island		
Woonsocket	401-766-7446	Graphics
Tennessee		
Manchester	931-723-4442	Electrical wire harnesses
Texas		
Dallas	972-466-1133	Lighting
Houston	713-690-6666	Graphics



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Cincinnati, Ohio 45242
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